Heinrich Böll Stiftung

Brussels, 9 April 2014

Portugal: 40 years of democracy and integration in the EU

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Brussels, 9 April 2014

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Contents

The background to the 1974 revolution

- 48-year long dictatorships
  - Dissent was ruthlessly dealt with
  - Very harsh economic policy ("austerity") aiming at achieving balanced government budgets
    - Including limiting cereals imports, leading to famin and to uprisings (e.g., in Madeira in 1930-31)
    - Little regard for the fate of people
    - Lack of political and economic freedom
    - Widespread poverty, leading to mass emigration in the 1960s
    - From 1961 onwards, 13-year long war in the Portuguese african colonies (Guiné-Bissau, Angola, Mozambique), leading to:
      - Deployment of a total of 800 thousand men in three main war theaters, reaching a peak of nearly 150 thousand men in 1973
      - Nearly 9000 military casualties in the Portuguese Armed Forces;
      - An estimated 100 000 sick and wounded;
      - An estimated 100 000 war casualties
      - War budget represented between a third and 40% of the total government budget expenditures
      - No end in sight to the war

Phase I: 1974-1979 - Revolution and the first infant steps of democracy

Portugal:

- Integrated more than half a million Portuguese from the former colonies (6%-7% of continental Portugal's population)
- Introduced a minimum wage (May 1974), which has never been as high in real terms since then
- Created a national unemployment insurance in 1975
- Nationalised the commercial banking system and leading industrial conglomerates.
- Introduced a public social security system for all citizens, including those that had not paid any contributions, guaranteeing a minimum income for its eldest.
- Created a National Health Service in 1979, offering for the first time, free access to health to the wide population.
- Vastly expanded its public and free education system, resulting in an exponential increase in the number of enrolled students.

Phase III: 1999-2011 - Adopting the euro

- Portugal's macroeconomic performance since the euro was introduced has been a disappointment
  - Despite positive change in a number of social and economic indicators
  - Low economic growth, drop in total employment, rise in unemployment, drop in wages
  - Growing external imbalances and external debt

- Key is to understand that this is not the result of bad domestic policies but of deficiencies in the Economic and Monetary Union (euro area) architecture:
  - No self-adjustment mechanisms, in contrast to the US
  - No single-purpose, like the US, instead a series of destructive zero-sum games
    - Strongest largely determine EU policies
  - EMU (euro area) architecture based on utopia that single market would function in a manner that would differ from all previous functioning economic and monetary unions, namely with no fiscal transfers
  - Radically new and high-risk central bank model and monetary policy strategy, instruments and procedures
    - The ECB is the most independent central bank in the World with, in practice, no accountability (Buiter, Sibert)
  - EU Treaty reflects this utopia. As a consequence, when the euro crisis stroke, the EU governing institutions "had not choice" but to violate the letter of the law (The Treaty) and started assuming functions beyond their mandate ("mission creep")

Phase IV: 2011-2014 – The troika bailout and the adjustment programme

- Perception matters more than facts
  - The consensus view of the euro crisis was and is that this was a crisis caused by lax fiscal discipline

- In Portugal, the memoranda of understanding between the EU and the International Monetary Fund (IMF), on the one side, and the Government of Portugal, on the other, was widely hailed in the press and by many academic economists
  - Many welcomed the troika of IMF, EC, and ECB technocrats because they believed the foreign technocrats would be far more competent stewards of Portugal's economy and government, than the Portuguese politicians of the previous three and a half decades

- Therefore, bailout and accompanying "conditionality" was based on the view that Portugal faced eminently a fiscal crisis

- Thus, the adjustment programme suffered from two fundamental problems:
  - The misdiagnosis of the nature of the crisis
    - The euro crisis is an intra-eurozone balance of payments and external debt crisis
  - The misguided belief in the virtues of "austerity"
    - EU Treaty, EU governing institutions, and architects of the bailout

Phase IV: 2011-2014 – Results of the adjustment programme

- Unprecedented job destruction
  - In 2012 alone, the first full year of the programme implementation, 227 thousand jobs in the private sector were destroyed, 106% more than in 2011, representing 5,8% of total private sector employment
  - In the 4 years between the end of 2008 and 2012, 550 thousand private sector jobs were lost
- Rise in unemployment, particularly among the young
  - 16-24 year old unemployment rate of 35,7% at the end of 2013
  - Access to unemployment insurance was restricted so that by April 2013 only 44% of the unemployed could claim unemployment benefits
- Marked deterioration of labour conditions
- Fall in wages
  - Recent graduates earn less, in nominal terms, than in the 90s, and have much less job security (temporary contracts, rather than permanent contracts)
- Mass emigration
  - Rate of emigration is similar with that registered in the worse period of the dictatorship in the 60s
  - An estimated 120 thousand Portuguese emigrated in 2013 alone.
- Increase in suicide rates, poverty, hunger, including among children
  - **This Easter the Portuguese government will keep schools open during Easter holidays to ensure that thousands of children don't starve**
- (Nearly) every family is affected
- Marked deterioration in Health Services and Health Services preventive care

Phase V: 2014 - … – The post-troika

- EU governing institutions, IMF, and government roadmap for the next 20 years is clear: "a lot more austerity"
  - "If the road until now was steep, from now on it will become increasingly steeper until it becomes vertical", Ricardo Reis, Encontro de Economistas na Presidencia da República, 5 July 2013, approximate citation
  - Requires macroeconomic and fiscal performance in every single year that, in the last 17 years, was observed only 1.6% of times in the 28 EU member countries, according to Ricardo Paes Mamede, 24 February 2014
  - Requires that Portugal - a country that registered in 2013 the first trade surplus in 70 years, the 8th time a surplus was achieved in 238 years – achieves recurring and growing trade surpluses in the future
    - Achieve a trade performance superior to that historically achieved by Germany and similar (before interest outlays) to the peak surplus observed in China in 2007 (Ricardo Cabral, 2012, 2013)

- That is, troika plan has no connection to reality and is bound to fail
  - The programs being implemented in the peripheral countries remind me of China's Great Leap Forward, which had devastating consequences, as is well known

Phase V: 2014 - … – The post-troika

- Portugal’s adjustment programme has been declared a “success”:
  - Angela Merkel and Pedro Passos Coelho, March 18, 2014, Berlin Chancellery
  - Wolfgang Schäuble, German finance minister, has on various occasions stated that “austerity is working”
  - European Commission officials, on various occasions

- Who is right?

- It is all, we fear, a question of who is spending the most resources to support their own vision of reality.

- Despite dismal results the adjustment programmes are being kept on track through use of European taxpayer and IMF funds on a massive scale
  - In the case of Portugal, €153 bn of official sector loans in December 2013 (92% of GDP), plus reduction in interest rates worth up to €2.8bn per year (Cabral, 2014)
  - Government and banking systems would have defaulted without these funds
  - An estimated €1.2 trillion official sector loans for the GIIPS

Phase V: 2014 - … – The post-troika

- Those few policy makers (~100) at the top of EU governing institutions believe in their austerity strategy. They believe their strategy is correct. They apparently believe in their own propaganda
- And they are able to command the immense financial resources of Eurozone member countries' taxpayers, in practice, unchallenged, in support of their beliefs
- When they claim "mission accomplished", they fail to mention that the "austerity strategy" is very expensive to EU taxpayers: official sector loans to GIIPS alone amount to more than €1.2 trillion, which are unlikely to be ever fully repaid

- This austerity strategy is, by this one metric - the amount of already committed EU taxpayer funds -, an utter failure, because despite the use of unprecedented amounts of European public funds, key macroeconomic variables have deteriorated significantly
  - Portugal's total employment is below the level registered when Portugal adopted the euro
  - Real GDP and real domestic demand have returned close to the level registered in 2000 and 1998, respectively.
  - Real gross investment is well below the level observed in 1995.
  - General government debt reached nearly 130% of GDP (EDP)
  - Net external debt app. 103% of GDP, and net IIP app. -118.9% of GDP

Concluding remarks

- "If we take the view that Germany must be kept impoverished and her children starved and crippled […]. If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp"

- The European "population is accustomed to a relatively high standard of life, in which, even now, some sections of it anticipate improvement rather than deterioration. […] *(Parts of this)* population secured for itself a livelihood before the war, without much margin of surplus, by means of a delicate and immensely complicated organisation […]. By the destruction of this organisation […] a part of this population is deprived of its means of livelihood. […]

- The danger confronting us, therefore, is the rapid depression of the standard of life of the European populations to a point which will mean actual starvation for some […]. Men will not always die quietly. For starvation, which brings to some lethargy and a helpless despair, drives other temperaments to the nervous instability of hysteria and to a mad despair. And these in their distress may overturn the remnants of organisation, and submerge civilisation itself in their attempts to satisfy desperately the overwhelming needs of the individual. **This is the danger against which all our resources and courage and idealism must now co-operate**." (text italics, and formatting added)

** John Maynard Keynes, 1919, The Economic Consequences of Peace, Londres: Hartcourt*

Concluding remarks

- Portugal has changed beyond recognition in the last 40 years since the revolution
- It has had, with the help of the European Union, the first real prospect in centuries of joining the club of developed nations
- The integration in the European Union was helpful in establishing a democratic Portugal and in Portugal’s integration in the World economy
- All of this progress is now at risk

Concluding remarks

- "History repeats itself: the first time as tragedy, the second time as farce" paraphrased from Marx, who was in part quoting Hegel (1852)

- It is not the first time that the virtues of democracies come into question
  - In pre-WWII Europe, the Great Depression led many to believe that dictatorships were more effective than democracies

- The construction of the EMU has revisited these issues, with the widespread belief arising – and being reflected in the European Treaty and Treaty on the Functioning of the European Union – about the supposed virtues of unelected "technocracy"
  - Key parts of the EU Treaty were defined by "technocrats"

- The response to the euro crisis has reinforced these trends:
  - A troika of unelected "technocrats" have imposed their will, with little-to-no oversight of the European Council and European Parliament, no scientific method in the design of economic policies, disregard for law, economic and social consequences, and no accountability
  - Portugal has become a protectorate

- This has only been sustainable because these technocrats in the EU governing institutions and in the IMF can command immense funds to maintain the status quo in Portugal (and in other peripheral economies) and in effect coopt Portugal's governing elites
  - EU and IMF now hold in excess of €153bn of Portugal's gross external debt, more than 40% of the total, approximately 92% of Portugal's GDP

Concluding remarks

- Troika adjustment programme represents a “Coup d’etat” (Ricardo Paes Mamede, January 2014), where fundamental elements of Portugal’s social contract, part of it embodied in Portugal’s Constitution, are for ever changed, with little regard for niceties or consequences
  - Under the permanent threat of forced bankruptcy and systemic bank failure

- “Taxation, without representation” is in effect what the European Union governing institutions are imposing to the Portuguese citizens today
  - In 2011, the EU and IMF demanded, as a pre-condition to the bailout, that the main political parties, representing nearly 80% of the votes, sign the bailout agreement. Access to EU funds was conditional on ratifying the “fiscal compact”
  - The EC, the troika, the President of the European Commission, all want a “consensus” between the main political parties to ensure that austerity strategy can last for at least a further 20 years

- Portugal did not get out of a dictatorship, to get into a more powerful, more remote, more autistic 20-year long “dictatorship of technocrats” based in Frankfurt, Luxembourg and Brussels
  - Who are imposing economic policies in some cases more radical than those adopted by Salazar
  - And who are implementing savage cuts to the policies and public programs that were so successfully introduced in the aftermath of the 1974 revolution

Concluding remarks

- Current EU policy towards Portugal (and other peripheral countries) is morally unacceptable, economically irrational, and counterproductive
  - Represents a low point in the European integration process
  - Essentially based on buying off the national elites, and with their collaboration, impose policies that are highly detrimental to Portuguese citizens and to Portugal's national interest

- Portugal shall rebel, if she must (I hope not too late for her own good)
  - Portugal is a sovereign country
  - It has policy instruments (namely the power to write new laws), which allow it to respond to the country's balance of payments crisis on its own
  - Portugal can respond unilaterally, in a planned, constructive, and rational manner, which respects the European Treaty
  - But Portugal would much rather work with and reach an agreement with her EU partners

- I hope that reason and good sense prevails: that EU policy makers finally change course and implement sensible, sound policies grounded on facts, not on ideology

Thank you